

**SOUTH CAROLINA
DEPARTMENT OF PUBLIC SAFETY
BLYTHEWOOD, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2017



Independent Accountant's Report on Applying Agreed-Upon Procedures

March 6, 2018

Mr. Leroy Smith, Director
South Carolina Department of Public Safety
Blythewood, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Department of Public Safety (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2017. The Department's management is responsible for the systems, processes and behaviors related to financial activity. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment 1 either for the purpose for which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Department. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Clerical errors of less than \$1,000 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class inspected.
- Clerical errors of less than \$1,000 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions inspected were found to be in error.
- Reporting packages which are submitted less than three business days after the due date unless it is determined that more than two of the reporting packages were submitted late.

This report is intended solely for the information and use of the management of the South Carolina Department of Public Safety and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

South Carolina Office of the State Auditor

Agreed - Upon Procedures Related to the South Carolina Department of Public Safety (K05)

Cash Receipts/Revenues

1. Compare current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain and document an understanding of variations over \$7,400 – General Funds, \$178,100 – Earmarked Funds, \$10,400 – Restricted Funds, \$203,100 – Federal Funds and 10%.
2. Randomly select twenty-one cash receipts and inspect supporting documentation to determine that receipts are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Cash Disbursements/Non-Payroll Expenditures

3. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain and document an understanding of variations over \$476,700 – General Funds, \$231,800 – Earmarked Funds, \$55,900 – Restricted Funds, \$213,500 – Federal Funds and 10%.
4. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine that disbursements are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Payroll

5. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain an understanding of variations over \$476,700 – General Funds, \$231,800 – Earmarked Funds, \$55,900 – Restricted Funds, \$213,500 – Federal Funds and 10%.
6. Select all bonus pay disbursements to determine:
 - Employee does not make more than \$100,000 annually.
 - Bonuses received during the year did not exceed \$3,000.
 - Transaction was appropriately documented and approved.
7. Randomly select twenty-two employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Department's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.
8. Randomly select twenty-one employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Department's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
9. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of variations over 10%.

Payroll (Continued)

10. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of variations over 10%.

We found no exceptions as a result of the procedures.

Journal Entries and Transfers

11. Randomly select twenty-four journal entries and one transfer for the fiscal year to:
 - Trace postings to the general ledger, confirming amounts agree with supporting documentation.
 - Confirm transaction is properly approved.
 - Inspect supporting documentation to confirm the purpose of the transaction.

Finding:

For one of the journal entries inspected, a discrepancy was noted between the supporting documentation and the journal entry. The supporting documentation included a detailed explanation of the base to be used in the calculation of indirect cost which did not match the base used in the calculation.

Management's Response:

We hereby acknowledge this finding and offer the following response for your consideration. A change in calculation to comply with the language detailed in the IDC base will reduce the amount of funding available to be used directly by the grant programs. This reduction would lead to a decline in funds available for direct program initiatives, civilian and law enforcement salaries, sub-awards and other direct expenditures. Therefore, we are requesting an amendment to the letter from the Department of Justice which will correct the language of the negotiated agreement regarding the IDC base to correspond with the actual calculation currently utilized by our agency.

Appropriation Act

12. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
13. Confirm compliance with Department-specific state provisos by inquiring with management and observing supporting documentation.

Finding:

We were unable to confirm compliance with part (3) of Section 11-35-3830 of the South Carolina Code of Laws, requiring a quarterly submission to the State's Materials Management Officer a listing of approved trade-in sales made in fiscal year 2017.

Management's Response:

We concur with this finding. Procurement has historically reported all quarterly activity. An amended report will be submitted to include all trade-ins made during fiscal year 2017. Future acquisitions with trade-ins will be made in accordance with Section 11-35-3580 of the South Carolina Procurement Code.

Reporting Packages

14. Obtain copies of all fiscal year end reporting packages submitted to the Office of the State Comptroller General. Inspect all reporting packages and related items (Except Grants and Miscellaneous Commitments) and:
 - Determine if preparation was in accordance with Comptroller General Office requirements.
 - Determine if amounts reported in the reporting package agree with the supporting workpapers and accounting records.
 - Haphazardly select five capital assets and three low value assets from current year acquisitions and determine if the assets were properly coded and classified in the accounting system.
 - Haphazardly select five capital asset retirements and determine if that amounts were properly coded and classified in the accounting system.
 - Determine if the proper approvals were obtained when engaging attorneys on a fee basis.

Findings:

Timeliness of Reporting Packages

Similar to the finding reported in the engagement of the prior fiscal year, three of fourteen reporting packages were submitted after their respective due dates.

Operating Leases

Similar to the finding reported in the engagement of the prior fiscal year, calculation and lease date discrepancies were noted for two of the Department's ten operating leases on the future minimum payment schedule, resulting in a \$66,800 understatement of future minimum payments.

Accounts Receivable

Recording errors in the accounting system resulted in the Department's \$75,000 reported receivable balance being overstated by approximately \$42,000.

Accounts Payable

A vendor payable of approximately \$30,000 was misclassified as an intergovernmental payable on the Accounts Payable Summary Form. In addition, the reported payable balance was understated by approximately \$165,000 due to the inadvertent omission of interfund payables under \$100,000, required by Comptroller General's Office instructions to be reported as account payables.

Interfund Receivables

Two interdepartmental receivables, totaling approximately \$277,000, were inadvertently excluded from the \$281,000 reported receivable balance.

Compensated Absences

Late submissions of leave, reducing the liability for compensated absences by approximately \$17,000, were not reported with the Department's subsequent events reporting.

Management's Response:

We acknowledge and hereby agree with these findings. Please note a corrective action plan has been identified for each of the items listed in this section of the report and we are currently in the process of implementing the Reporting Package changes in the closeout procedures for FY 2018.

Composite Reservoir Accounts

15. Obtain a listing of Department composite reservoir accounts and confirm with Department management that the listing is complete.

Composite Reservoir Accounts (Continued)

16. Obtain fiscal year monthly reconciliations for each composite reservoir account and for four haphazardly selected reconciliations, perform the following procedures:
 - Determine the selected reconciliations were timely performed and properly documented in accordance with State regulations, and are mathematically correct.
 - Agree applicable amounts from reconciliations to the general ledger.
 - Agree applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
 - Determine if reconciling differences were adequately explained and properly resolved.
 - Determine if necessary adjusting entries were made in the accounting records.
17. Inspect five haphazardly selected composite reservoir account receipts to determine that they were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations and that they were recorded in the proper fiscal year, and that any retention or remittance of revenue is supported by law.
18. Inspect five haphazardly selected composite reservoir account disbursements to determine if the disbursements were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations, were bona fide disbursements of the Department, were paid in conformity with State laws and regulations and that goods and/or services were procured in accordance with applicable laws and regulations.

We found no exceptions as a result of the procedures.

Status of Prior Findings

19. Through inquiry and inspection, determine if the Department has taken appropriate corrective action on the finding reported during the engagement for the prior fiscal year.

We determined that the Department has taken adequate corrective action on the finding reported during the engagement for the prior fiscal year, except where noted in the Reporting Package findings above.